

Performance Audit

Strengthening City Contracts:
Aviation Department
Relighting Contract

October 2001

City Auditor's Office

City of Kansas City, Missouri

October 24, 2001

Honorable Mayor and Members of the City Council:

This performance audit of the Aviation Department's 1999 contract to relight the parking garages and improve stair towers at Terminals A and B at KCI Airport was initiated by the city auditor pursuant to Article II, Section 13 of the city charter. The audit focuses on the Aviation Department's management of the contract itself and on citywide construction contracting practices.

The Aviation Department's oversight of the 1999 contract for relighting parking garages was adequate and the contractor provided the work and materials required. Department staff did not make an inventory record of the number of lights received but not installed; in order to improve control over inventory, we recommend that surplus items of this type be recorded.

Although the department's management of the contract was satisfactory under the regulations in place at the time, citywide contracting requirements needed improvement. Regulations relating to contracting were found in a number of Administrative Regulations and Manual of Instructions, and contracts lacked consistency because contract methods and requirements were developed by each contracting department.

In 1997, the Red Flag Commission recommended the adoption of citywide contracting guidelines. In response to the recommendation, the city manager issued an Administrative Regulation and Contract Guidebook that addressed policies and procedures relating to contracts for services. The guidebook strengthened many of the areas that needed improvement at the time of the Aviation contract.

When compared to practices recommended by experts in construction contract auditing, the city's procedures could be further improved. We recommend that the city manager revise the Contract Guidebook to include further direction for documenting completion dates and decisions regarding liquidated damages; maintaining a record of contractors' proposed modifications; pricing and documenting change orders; and seeking cost recovery.

We provided a draft of this report to the director of Aviation and the city manager on September 20, 2001. Their responses are included as appendices. We appreciate the courtesy and cooperation of the Aviation Department staff throughout the audit. The audit team for this project was Douglas Jones, Martin Tennant, and Gary White.

Mark Funkhouser
City Auditor

Strengthening City Contracts: Aviation Dept. Relighting Contract

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Introduction

Objectives

This audit of the Aviation Department's garage relighting contract was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making.¹ This audit was designed to answer the following questions:

- Were the work and materials stipulated in the contract documents provided by the contractor?
- Was the Aviation Department's inspection and quality review process effective?
- Were contract change orders properly authorized and priced in accordance with the contract requirements?
- Does the city's Contract Guidebook incorporate controls recommended by experts in construction contracting?

Scope and Methodology

This audit focused on a \$1.3 million construction project to replace lighting in Terminal A and B parking garages at the KCI airport. The project was completed in 1999. We also examined the processes used by the city to manage construction contracts.

We conducted this audit in accordance with generally accepted government auditing standards. Our audit methods included:

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p. 14.

- Interviewing Aviation Department staff.
- Conducting a site visit to gain an understanding of the work performed and materials used.
- Reviewing contract and payment documents, department review and inspection documents, and correspondence files.
- Comparing recently established city contract requirements to contracting practices recommended by experts in construction contract auditing.

No information was omitted from this report because it was deemed privileged or confidential.

Background

The Aviation Department's Planning and Engineering Division developed and monitored the contract and project. The purpose of the project was to change the lighting in the Terminal A and B parking garages to meet current illumination standards and improve safety. New canopies were also installed on the garage stair towers to protect the stairs from snow and rain and better ensure safe footing for pedestrians.

The project was competitively bid as a lump sum contract.² The lowest bidder was awarded the contract. The City Council authorized \$1,233,000 in construction costs and \$123,000 in contingency funds for unforeseen problems or changes to the project.³ Work on the project started on January 4, 1999, and all items related to the project were reported complete by September 10, 1999. The final cost of the project, including five change orders, was \$1,255,432.

Legislative Authority

The city charter and code authorize the city manager to enter into contracts on behalf of the city, delegate this authority to individual departments, and develop rules and regulations for administering the contracts.⁴

² A lump sum contract is one in which a specific amount is agreed to as the total payment for performance of the contract.

³ Ordinance 981125, effective October 11, 1998.

⁴ Charter of Kansas City, Missouri, Art. IV, Sec. 82, and Code of Ordinances, Kansas City, Missouri, Sec. 2-81.

At the time of the relighting project, city policies and procedures regarding contracts for services were described in Administrative Regulations and Manual of Instructions. The procedures addressed reviewing, authorizing, executing, and processing contracts.⁵

Subsequent to the completion of the project, the city manager released a guidebook establishing a standardized contract procedure for use by all city departments.⁶ The Contract Guidebook was developed in response to recommendations made by the Red Flag Commission regarding the city's contracting practices. Staff from the Aviation Department played an active role in developing the Contract Guidebook.

⁵ *Administrative Regulation 3-12*; "Contracts for Services", April 1, 1997; *Administrative Regulation 3-19*, "Contractor Pre-qualification", April 1, 1997; *Manual of Instructions 2-02*, "Contracts", May 1, 1999.

⁶ *Administrative Regulation 3-21*, "Contract and Procurement Policies and Procedures", November 1, 1999.

Findings and Recommendations

Summary

The Aviation Department's oversight of the 1999 contract for relighting parking garages was adequate and the contractor provided the work and materials specified in the contract. However, department staff did not record in inventory a number of lights purchased but not installed.

Although the department's management of the contract was satisfactory, citywide contracting requirements in effect at the time needed improvement. After the contract was awarded, the city manager issued an Administrative Regulation and Contract Guidebook that improved policies and procedures relating to city departments' contracts for services. The guidebook also standardized the city's contracting practices.

The guidebook, although an improvement over previous contracting practices, can be further improved to strengthen city oversight over construction contracts. We recommend that the city manager revise the Contract Guidebook to improve requirements relating to documenting completion dates and the decision whether to assess liquidated damages; maintaining a record of contractors' proposed modifications; pricing and documenting change orders; and providing additional language regarding cost recovery for excessive or erroneous costs.

Contractor Provided Required Work and Materials

The contractor provided all the materials and services required by the terms of the contract. The new parking garage lighting system and improved stair towers satisfy contract specifications. Contract documents confirm that the contractor complied with the city's requirements regarding bonds, insurance, and MBE/WBE participation.

Aviation Inventory Records Are Incomplete

Surplus materials from projects are not recorded in the department's inventory records. For the relighting project, original plans specified 37 more lights than were needed, valued at about \$4,800. A project change order required the contractor to return the uninstalled light fixtures to the

department. Staff in charge of the department storerooms reported that the returned lights were placed in the storerooms and that the lights are used to make repairs at the airport's parking facilities. However, department inventory records do not include these items.

Aviation staff report that surplus items from construction projects are not recorded in storeroom inventory. Reasons cited for not adding these items to the inventory include storeroom staff not always knowing the costs of these items and the materials being received by the project staff rather than storeroom staff.

Inventory Records Should Include Surplus Construction Materials

Without an accurate record of surplus project materials, there is limited assurance that all the materials were received, that the materials are removed from the storerooms only for authorized purposes, and that additional materials will not be purchased because existing inventory is unknown or overlooked.

In order to assure adequate control over its assets, we recommend the director of Aviation develop and implement policies and procedures for documenting and inventorying surplus construction materials held in its storeroom facilities.

Management of Liquidated Damages Could Be Improved

Documenting project completion and decisions regarding the assessment of liquidated damages would strengthen project oversight. The Contract Guidebook requires that contracts include a detailed explanation of what contractors must do to accomplish completion and avoid paying damages for late completion. Language in the Aviation Department's terminal relighting contract required the contractor to correct unsatisfactory items before the project could be considered complete. Although items remained incomplete by the required completion date, the department did not assess liquidated damages⁷ as provided in the contract.

Aviation Did Not Seek Liquidated Damages

Aviation did not assess damages for late completion on the garage relighting project. The garage relighting contract defined the point of

⁷ Liquidated damages are an amount of money agreed to by both parties to a contract which one will pay to the other upon breaching the agreement.

project completion as the time when final inspection determines that unsatisfactory items are corrected. Even though unsatisfactory items were not corrected until after the required completion deadline, the department did not seek liquidated damages for late completion as allowed by the contract.

According to the contract,

The work to be performed under this contract shall begin on the date specified in the written Notice to Proceed issued by the Director of Aviation, and said work *(including final inspection and the correction of unsatisfactory items)* shall be completed within 180 calendar days thereafter. Once work starts, the Contractor shall continuously pursue completion of the work. *(emphasis added)*⁸

The notice to proceed was effective on January 4, 1999. According to the contract terms, completion would be required by July 3, 1999. On July 2nd, the department approved a 30-day extension for project modifications. The required completion date became August 2, 1999. The department's final contract closeout checklist indicates all unsatisfactory items were not corrected until September 10, 1999, 39 days later.

According to the contract, the contractor was liable for \$2,400 in liquidated damages for each day of late completion for which the contractor was responsible. Because the project was actually completed 39 days following the required completion date, the city could have assessed \$93,600 in damages to the contractor for late completion.

Damages for late completion were not assessed. Project records indicate the final inspection on the project was made on July 9, 1999, three weeks before the contracted deadline for completion. The project manager told us that he considered the uncorrected items that remained on July 9, 1999 as non-critical. A letter from the project manager, dated November 16, 1999 relieved the contractor of any liquidated damages.

⁸ Aviation Department's terminal relighting contract, *Section IIA, Special Conditions*.

Contract Guidebook Defines Completion Differently, but More Thorough Documentation Is Needed

City departments are now required to use contract language and forms contained in the Contract Guidebook, which became effective about a year after the Aviation garage relighting contract was executed.

The guidebook does not assess damages based on final completion and correction of unsatisfactory items but instead assesses damages based on “substantial completion.” Substantial completion is generally regarded in construction contracts as the point at which the owner determines the project is useable. Substantial completion relieves the contractor of liability for late completion as long as the project is useable by the completion date, even though some unsatisfactory items may remain to be corrected.

Although the Contract Guidebook includes language that explains what is required to accomplish substantial completion, it does not provide a method for documenting project managers’ reasons for determining the substantial completion date and whether liquidated damages should apply. Documenting the basis for these decisions would help assure reasonable and consistent application of contract requirements including the assessment of damages when appropriate.

Inadequate documentation of project completion decisions has been a citywide problem. In 1992, the city auditor reported citywide problems with the documentation of construction project completion dates and of decisions regarding liquidated damages.⁹ At that time, Aviation was the only city department that maintained a computer database of liquidated damages. A subsequent report in 1996 found citywide improvements in records management.¹⁰

Improved Documentation Would Justify Decisions to Assess Damages

Requiring contract managers to document how the substantial completion date was determined and whether liquidated damages were appropriate will strengthen city oversight of construction projects. At a minimum, a form should be used, listing milestones such as notice to proceed, original completion date per the contract, any subsequent

⁹ *Comparative Analysis of Capital Improvement Projects*, November 1992, City Auditor’s Office, Kansas City, Missouri.

¹⁰ *Follow-up Audit, Comparative Analysis of Capital Improvement Projects*, February 1996, City Auditor’s Office, Kansas City, Missouri.

completion date extensions due to project modifications, and the actual completion date. The form should also include the project manager's reason for determining the actual completion date and whether or not liquidated damages were assessed. The form should be subject to independent supervisory review and should be listed in the final contract closeout checklist already required by the city's Contract Guidebook.

We recommend the city manager revise the Contract Guidebook to include a method for ensuring that contract terms for project completion are monitored by contracting departments. The project files should include documentation of the determination of the project completion date and the decision of whether or not to assess damages for late completion.

Record of Proposed Contract Modifications Should Be Retained

Aviation's quality assurance procedures over the construction process were adequate and provided reasonable assurance that the contractor complied with contract requirements. The Contract Guidebook does not require departments to maintain a record of all contractor proposals to modify contracts, including those that were rejected. Experts say requiring departments to maintain a record of all contractors' requests for alternate methods and materials is an important element in quality control. We recommend the guidebook require departments to maintain records of all contractor proposals to improve the city's efforts to ensure quality control.

Aviation's Quality Assurance Procedures Were Adequate

Aviation's quality assurance procedures for the relighting project were adequate. Project files for the relighting project included evidence of the department's quality assurance efforts and provided reasonable assurance that the contractor complied with contract requirements. Documents indicate frequent communication between the department, the department's consultant, and the contractor. Memoranda and minutes contained in the correspondence files describe regular inspections, meetings, and written correspondence involving all the parties. These methods kept the parties informed and enabled resolution of problems that arose during the project. Aviation's checklists helped assure that administrative procedures were in order and that problems in the field were resolved.

The change order files and the shop drawings of the garage relighting contract provide a record of approved requests. The correspondence files also contain references to contractors' requests for alternate methods and materials, however, we were unable to determine whether the project files included all the rejected requests. Project files did not include a separate file that records all approved and unapproved requests by contractors for modification to contract requirements.

Records of All Requested Contract Modifications Would Improve Quality Control

The Contract Guidebook requires documentation of approved project modifications through work change directives, change orders, and contract amendments, but it does not require departments to keep a record of all changes requested by the contractor including those that were denied. Experts in construction contract auditing find that a record of all contractor requests is important for conducting effective field inspections. Maintaining such a file provides inspectors with information needed to confirm that contractors comply with approved changes and that unapproved alternate methods and materials are not incorporated by contractors.

Knowledge of proposed contract modifications could help focus quality assurance and inspection efforts. Departments are more likely to detect contractor attempts to cut corners when they are aware of all requests contractors have made for changes in contract requirements.

The city manager should revise the Contract Guidebook to include a method for contracting departments to document all alternate methods and materials proposed by the contractor. A standard log could serve as an index of proposed alternatives.

Improved Change Order Requirements and Cost Recovery Provisions Would Protect the City's Interests

Contract requirements did not ensure that change orders were properly priced. Change orders can increase contract costs through modifications of materials, construction methods, or project scope. Experts recommend change order proposals be sufficiently reviewed to ensure they are reasonably priced. Aviation's relighting contract included limited provisions for change orders. Supporting documentation was inadequate to confirm the five change orders approved during the 1999 relighting contract were properly priced. Although we identified

approximately \$6,100 in questionable costs, the costs may be unrecoverable because the contract did not specify what costs could be included and had no cost recovery provision.

The Contract Guidebook increased the required level of detail regarding developing and pricing change orders. Incorporating additional change order requirements and standards for developing and documenting supporting change orders would strengthen city control over construction contracts. The Contract Guidebook and contract language should also contain a provision for the recovery of erroneous or excessive costs. Such a provision would increase the city's opportunity to recover improper costs under the terms of the contract.

Contract Requirements Did Not Ensure Change Orders Were Properly Priced

Aviation's contract for the relighting project provided little direction for developing and documenting change order costs. The contract only required that change orders be agreed to and signed by the contractor and director of Aviation.

The contractor agrees to provide all labor, materials, equipment, and incidentals necessary for the work as set out by Section III, Technical Specifications, and accompanying drawings, of this Contract, and *as modified by change orders mutually agreed to in writing by the Contractor and the Director of Aviation.* (emphasis added)¹¹

Change orders are used to modify contracts in terms of time, money, materials, or construction methods. The method for developing, pricing, and documenting change orders is normally outlined in the contract document.

Change orders can potentially add 10-15 percent to the value of the original contract amount.¹² Because they affect the cost of the contract, change orders should be reviewed prior to approval to ensure they are accurately priced. Change orders should be examined for calculation errors, proper labor and labor burden rates, appropriateness of pricing for additional materials, credits for materials no longer needed due to the change, correct application of contract terms, and that the scope of work is not already included in the original contract.

¹¹ Aviation Department's terminal relighting contract, *Section II. 4. Scope of Work*.

¹² Charles A. Krueger and Richard L. Townsend, "The Controller's Role in Controlling Construction Costs", *Management Accounting*, December 1988, p. 40.

Inadequate Review of Change Orders Can Be Costly

During construction of a \$20 million facility, numerous lump sum change orders were processed by the construction manager and by the owner's project manager. Most of the change orders included itemized breakdowns of the cost and pricing used by the contractors to develop the change order proposals. The contract allowed the contractors to charge a 15 percent markup on the estimated direct cost to perform the change order work.

The electrical contractor had received approximately \$2 million in lump sum change orders. An audit determined that the labor rate used to price change orders already included the 15 percent markup, plus other cost factors that were supposed to be covered by the 15 percent. These duplications resulted in \$300,000 in excess charges in the electrical contractor's change orders.

Source: Richard L. Townsend, "Contracting For Construction Projects", *Internal Auditor*, June 1993, pp. 43-44.

The relighting contract and documentation supporting the five change orders did not include a number of items necessary for performing a pricing review, including:

- allowable and excludable costs;
- percentage mark-ups for the general contractor and subcontractors;
- itemized lists of materials and costs;
- itemized list of labor used by the general contractor and subcontractors;
- the labor burden rate or amounts; or
- invoices from the subcontractor detailing the cost of the change order proposal.

The checklist used by Aviation for processing change orders directed staff to review the change order section of Administrative Regulation (AR) 3-12, which addressed obtaining approval signatures and certification that funds were available. Neither the checklist nor the AR provided any direction for reviewing change orders or requirements for minimum documentation provided by contractors and subcontractors. The lack of adequate contract provisions and supporting documentation makes it difficult for management to review change order pricing. Without adequate contractual protection, supporting documentation, and management review, contractors might not properly price change orders.

Change Order Requirements Have Improved, but Should Be Strengthened

The Contract Guidebook clarified the directions for developing and pricing change orders. Although much improved over requirements at the time of the relighting contract, incorporating additional change order requirements could strengthen the guidebook.

The Contract Guidebook provides more direction. The guidebook provides direction for change order development and allowable costs. The guidebook covers items such as the method of determining the value of the change; allowable mark-up fees; and information on labor (including supervision), material, subcontractor, insurance, and administrative costs. The guidebook also requires contractors to maintain records in accordance with generally accepted accounting practices, but allows city departments to determine the acceptable amount of cost information and supporting data that contractors will provide.

The guidebook also provides a change order checklist and form for approving submitted change orders with limited instructions for completing these documents. The checklist is used to note that approval signatures from department and city management have been obtained, funds are available, and encumbrance forms were completed. The change order form indicates the scope of the change and amount, with spaces for approval signatures. The checklist and form, however, do not provide any direction regarding the type of review change orders should undergo to determine whether the price and scope are reasonable and acceptable.

Change order contract language could be further improved.

Incorporating contract language developed by construction contract auditing experts could strengthen the city's contract language. In addition to the items already included in the Contract Guidebook, experts recommend that contract language address items such as labor costs (excluding supervision above the level of working foremen because it is considered to be included in mark-up percentages), labor burden costs,¹³ direct and indirect costs that are covered by mark-up percentages, and the right to verify change order pricing information (including recovery of inaccurate costs). An example of a detailed change order pricing form that compliments the recommended contract language is included in Appendix A.

¹³ These are costs beyond employee wages and include various payroll taxes, worker's compensation, insurance, and other benefits.

Clearly defined contract requirements and standard documentation will assist management when reviewing change orders for reasonable pricing and protect the city's interests. The city manager should revise the Contract Guidebook to strengthen change order contract language and standardize documentation requirements.

Contract Provisions Needed for Post-Project Recovery of Excessive Costs

The city's ability to recover excess charges would be strengthened by including a cost recovery provision in project contracts. We reviewed the documentation attached to the five change orders approved for Aviation's relighting project to identify potential overcharges. According to experts, contract overcharges are typically 1-2 percent of total project costs.¹⁴ Our analysis excluded costs associated with additional supervision and mark-up percentages for equipment, and the costs of as-built drawings. According to construction contract auditing experts, these costs are normally included in the general contractor and subcontractor overhead and profit mark-up percentages. We also excluded costs related to calculation errors and the overtime pay differential for 25 of 29 overtime hours that could not be confirmed by certified payroll records.

Based on the relighting contract's available change order pricing documentation, we identified overcharges and undercredits of approximately \$6,100, or about .5 percent of the final contract value. These questioned costs, however, may be difficult to recover because the garage relighting contract did not specify what costs could be included and had no cost recovery provision.

Cost recovery provisions should be incorporated into the guidebook.

The Contract Guidebook has a right to audit clause but does not mention cost recovery. Experts in construction contract auditing recommend strong audit provisions that allow post-approval recoveries of contractor overcharges when the charges are based on inaccurate cost and pricing data.

Because identifying and denying excessive costs prior to approving change orders or making payments may not always be possible, the city needs a way to recover those costs after approval of payment. We recommend the city manager revise the Contract Guidebook to include cost recovery language in the contract requirements. Such a provision would improve the city's ability to recover costs under the terms of the contract.

¹⁴ "The Controller's Role in Controlling Construction Costs", p. 38.

Recommendations

1. The director of Aviation should develop and implement policies and procedures for documenting and inventorying surplus construction materials.
2. The city manager should revise the Contract Guidebook to include a method for ensuring that contract terms for project completion are monitored by contracting departments. The project files should include documentation of the determination of the project completion date and the decision of whether or not to assess damages for late completion.
3. The city manager should revise the Contract Guidebook to include a method for contracting departments to document all alternate methods and materials proposed by the contractor.
4. The city manager should revise the Contract Guidebook to strengthen change order contract language and standardize documentation requirements.
5. The city manager should revise the Contract Guidebook to include cost recovery language in the contract requirements.

Appendix A

Change Order Pricing Form

CONTRACT DOCUMENT ATTACHMENT "A" - Page 1 of 4

EXAMPLE CHANGE ORDER PRICING FORMAT - Sheet #1 RECAP

Contractor:	CHANGE ORDER PROPOSAL #	REFERENCE #
IMPACT ON SCHEDULE COMPLETION DATE FOR CONTRACT WORK BY CONTRACTOR:		
Increase Number of Days:	Decrease Number of Days:	

RECAP OF CHANGE ORDER PRICING DETAIL

Total Allowable Charges for Labor and Labor Burden - Per Sheet # 2 Pricing Detail Recap	\$ -
Total Allowable Charge for Material - Per Sheet # 2 Pricing Detail Recap	\$ -
Total Allowable Charges for Equipment - Per Sheet # 2 Pricing Detail Recap	\$ -
Subtotal Labor, Material & Equip. for Self - Performed Work:	\$ -
Add Allowable Markup on Self-performed Work (N -T- E 15%, 10%, 7.5%):	\$ -
Add Applicable Sales Tax (Not Subject to Markup)	\$ -
Total Allowable Charges for Subcontractors - Per Sheet # 2 Pricing Detail Recap	\$ -
Add Allowable Contractor Markup on Subcontractor Work (N-T-E 7.5%, 5%, 2.5%)	\$ -
TOTAL ALLOWABLE CHARGES FOR CHANGE ORDER PER CONTRACT	\$ -
Time Change Order Adjustment Factor (x1.0 if Additive and x.975 if Deductive)	
NET CHANGE ORDER ADJUSTMENT TO LUMP SUM OR GMAX CONTRACT VALUE	\$ -

<p>Contractor Pricing Certification:</p> <p>We hereby certify that the pricing in this change order proposal is current, accurate and complete, and in accordance with the contract agreement. We understand that if the Owner later determines that the pricing above does not reflect accurate cost and pricing information which could have been determined by the preparer of the change order, that a post-approval adjustment may be made by the Owner to reduce the amount of the change order to reflect appropriate cost and pricing and/or to reflect appropriate pricing per the contract agreement.</p> <p>Submit by: _____ Date Submitted: _____</p>
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RLT (01/2001)

Source: R.L. Townsend and Associates, Inc.

CONTRACT DOCUMENT ATTACHMENT "A" - Page 2 of 4

EXAMPLE CHANGE ORDER PRICING FORMAT - Sheet # 2 Pricing Detail Recap

LABOR AND LABOR BURDEN

Working Foremen	Hours	0 Labor Rate	0	\$	-
Journeymen	Hours	0 Labor Rate	0	\$	-
Apprentices	Hours	0 Labor Rate	0	\$	-
Other Classification	Hours	0 Labor Rate	0	\$	-
TOTAL ALLOWABLE LABOR CHARGES FOR CHANGE ORDER PER CONTRACT					\$ -

MATERIAL

Material form detailing material Take-off sheets (Net of all trade and volume discounts)	\$	-
Other direct Material not Specifically Included in detailed take-off (Consumables, etc.)	\$	-
Freight from vendor to job site if not already included in above material costs	\$	-
TOTAL ALLOWABLE MATERIAL CHARGES FOR CHANGE ORDER PER CONTRACT (Note: Applicable Sales Tax on Material should be posted to Summary Page)	\$	-

EQUIPMENT

Equip description _____	Est. Usage	0	Rate	0	\$	-
Equip description _____	Est. Usage	0	Rate	0	\$	-
Equip description _____	Est. Usage	0	Rate	0	\$	-
Equip description _____	Est. Usage	0	Rate	0	\$	-
TOTAL ALLOWABLE EQUIPMENT CHARGES FOR CHANGE ORDER PER CONTRACT						\$ -

SUBCONTRACT COSTS - Per Separately Detailed Subcontractor Proposal

Subcontractor Name: _____	Proposal date: _____
Subcontractor Name: _____	Proposal date: _____
Subcontractor Name: _____	Proposal date: _____
TOTAL ALLOWABLE CHARGES FOR SUBCONTRACT WORK PER CONTRACT	
\$	-

RLT (01/2001)

Source: R.L. Townsend and Associates, Inc.

Source: R.L. Townsend and Associates, Inc.

CONTRACT DOCUMENT ATTACHMENT "A" - Page 4 of 4

EXAMPLE CHANGE ORDER PRICING FORMAT

**Example Change Order Cost and Pricing Information
Contractor's Breakdown of Contractor Costs for Allowable Labor and Labor Burden**

	Working Foreman	Journeyman	Apprentice	Helper	
Current Wage Rate					
Payroll Taxes:					
FICA	\$0.00	\$0.00	\$0.00	\$0.00	
Medicare	\$0.00	\$0.00	\$0.00	\$0.00	
SUTA	\$0.00	\$0.00	\$0.00	\$0.00	
FUTA	\$0.00	\$0.00	\$0.00	\$0.00	
Subtotal Payroll Taxes	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Percentage:					
Worker's Compensation Insurance:					
Manual Rate	\$0.00	\$0.00	\$0.00	\$0.00	
Experience Modifier	\$0.00	\$0.00	\$0.00	\$0.00	
Premium Discount	\$0.00	\$0.00	\$0.00	\$0.00	
Other Adj.	\$0.00	\$0.00	\$0.00	\$0.00	
Subtotal W/C Insurance:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Percentage:	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Benefits:					
Health & Welfare	\$0.00	\$0.00	\$0.00	\$0.00	
Pension	\$0.00	\$0.00	\$0.00	\$0.00	
Other:	\$0.00	\$0.00	\$0.00	\$0.00	
Subtotal Benefits:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Percentage:	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Grand Total Wages & Labor Burden:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Please note that separate computations should be made for rates to be used for when overtime premium is paid to the workers.

RLT (01/2001)

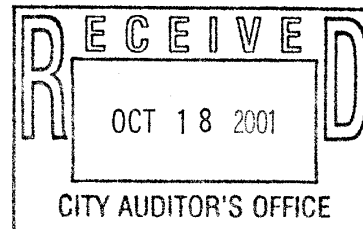
Source: R.L. Townsend and Associates, Inc.

Appendix B

City Manager's Response



Office of the City Manager



Date: October 17, 2001
To: Mark Funkhouser, City Auditor
From: Robert L. Collins, City Manager
Subject: Revised Performance Audit – Strengthening City Contracts

In reply to the Audit on Strengthening City Contracts, I wish to first express appreciation for the audit acknowledging the improvements that have occurred in city contracting processes in response to the recommendations of the Red Flag Commission concerned with improving the contracting processes of city government.

For a number of years my office has chaired an oversight committee from the large contracting departments plus members of the City's legal staff to improve the processes, procedures, and monitoring of contracts issued by the City of Kansas City, Missouri.

This team created the Contract Guidebook and the Central Contract File. The purpose of the Contract Guidebook is to codify standard city contract and procurement policies of the City of Kansas City, Missouri.

The Guidebook outlines procedures, consistent with federal and state law and the city charter and ordinances, for entering into contracts by city departments. The Guidebook was rolled out to departments in January 2000.

Regarding the following recommendations to refine and strengthen city-contracting procedures:

2. The city manager should revise the Contract Guidebook to include a method for ensuring that contract terms for project completion are monitored by contracting departments. The project files should include documentation of the determination of the project completion date and the decision of whether or not to assess damages for late completion.
3. The city manager should revise the Contract Guidebook to include a method for contracting departments to document all alternate methods and materials proposed by the contractor.
4. The city manager should revise the Contract Guidebook to strengthen change order contract language and standardize documentation requirements.

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5. The city manager should revise the Contract Guidebook to include cost recovery language in the contract requirements.

I am instructing the contract oversight committee to revise the Contract Guidebook where feasible to strengthen and clarify the city's requirements in construction contract administration as outlined in the audit. To achieve this aim I am instructing the committee to meet with departmental contract administrators, the law department, industry experts, and industry partners in the contracting community to recommend changes in the Guidebook that reflect best practice construction contract administration.



Robert L. Collins

cc: Galen Beaufort, City Attorney
Jim Brady, Assistant City Attorney
Dorothy Campbell, Assistant City Attorney
John Franklin, Assistant to the City Manager

Appendix C

Director of Aviation's Response

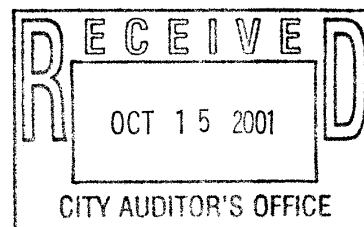


Office of the Director of Aviation

Date: October 8, 2001

To: Mark Funkhouser, City Auditor

From: Russell C. Widmar, AAE
Director of Aviation



Subject: Response to Draft Report on Aviation Relighting Contract

I appreciate the opportunity to respond to the draft report on the Aviation Relighting Contract. As requested, the Aviation Department has provided a response to recommendation one.

Recommendation 1: Agree

The Director of Aviation should develop and implement policies and procedures for documenting and inventorying surplus construction materials.

The Aviation Department will establish procedures for documenting the value of surplus construction materials that are mandated by contract to be provided to the department. The procedures will include requesting a description and valuation of such materials as part of the bid process and formal acceptance of such materials by project managers as part of project close-out procedures. After acceptance from the contractor, the materials will be entered into Aviation Department inventory, controlled by the central storeroom, and accounted for when they are issued. These new policies and procedures will be in effect for all current and future projects.